

CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

Canada West
FOUNDATION

VOL. 2012 | NO. 3

→ HOUSING PRICES

→ HOUSES VS. APARTMENTS

→ ENVIRONMENTAL DECISION-MAKING

Monthly Highlights

Mining & Energy Retrenches

The Canadian economy once again dipped into negative territory to start the year. Gross Domestic Product (GDP) contracted by 0.2% in February, wiping out January's modest gains. Most of the weakness was due to reduced output in the mining and oil and gas sector. GDP in that sector was down by 1.6% in February and has declined in four of the past five months.

Much of this decrease has been on the mining side. In particular, Statistics Canada reports that potash mining was down 19% as weak global demand forced mines in Saskatchewan to suspend production. Although many observers remain bullish on the medium-term outlook for potash demand, this development spells bad news for what in recent years has been one of Canada's hottest provincial economies.

Offsetting that bad news is evidence of vibrant construction activity in the region. While they dipped nationally, residential building permits in all four western provinces were up strongly in March compared to a year earlier. Manitoba and Alberta also posted exceptional gains in non-residential building permits.

There is also good news on the job-creation front. After several flat months, national labour markets roared back to life, adding

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,319	2,143	537	630	17,495	April
% change from previous month	0.9	0.5	1.3	-0.3	0.3	
Unemployment rate (%)	6.2	4.9	4.9	5.3	7.3	April
change in percentage points from previous month	-0.6	-0.4	0.1	0.0	0.1	
Participation rate (%)	65.0	73.9	69.8	69.1	66.8	April
Average weekly earnings (\$)	858.89	1,057.57	905.98	815.06	886.45	February
% change from previous month	0.2	0.1	-0.4	-0.7	0.2	
Inflation						
Consumer Price Index (% change from March 2011)	1.6	1.7	1.8	1.4	1.9	March
Economic Activity						
Retail trade (\$M)	5,136	5,608	1,381	1,390	38,909	February
% change from previous month	0.4	-0.6	0.7	-0.4	-0.2	
Wholesale trade (\$M)	4,536	6,329	1,838	1,301	48,528	February
% change from previous month	4.1	0.7	6.0	1.7	1.6	
Manufacturing sales (\$M)	3,199	6,509	1,121	1,304	49,121	February
% change from previous month	1.0	1.8	2.9	2.5	-0.3	

Unless otherwise noted, data are seasonally adjusted.

Source: Statistics Canada

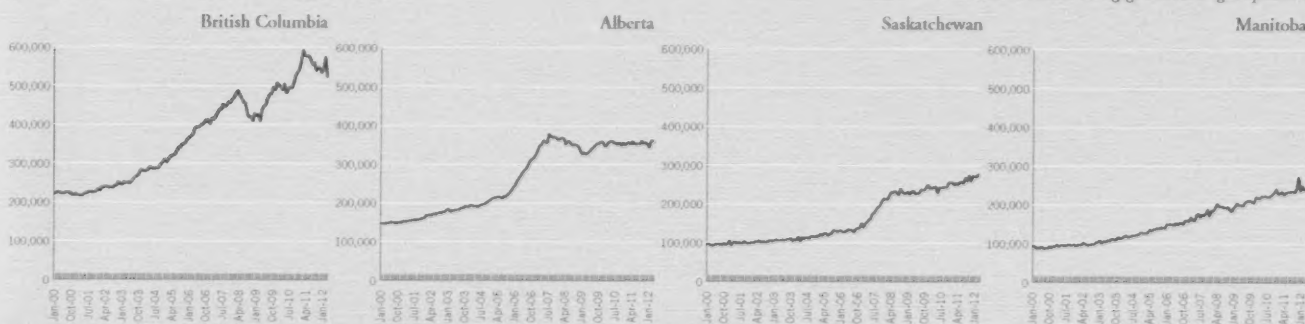
more than 140,000 jobs in March and April. Evidence from other economic indicators suggests that both this surge and the preceding weakness may have been exaggerated by the survey data. Regardless, it is only the timing and not the fact of the job creation that is in doubt.

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AVERAGE HOME RESALE PRICE (\$)



Monthly Feature

Is Western Canadian Real Estate Becoming Unaffordable?

A dramatic increase in housing prices over the last several years has led to growing concerns about the affordability of home ownership in Canada, the effect of mortgages on rising consumer debt levels and the risk that real estate markets are due for a significant price correction. This issue is especially relevant to the four western provinces where real estate markets have been among the hottest in the country.

BC is by far Canada's most expensive housing market and Vancouver the epicenter of concerns over home affordability and real estate bubbles. In 2011, the average cost of a home in BC was \$561,304, almost 55% above the national average (\$363,365). However, after a spectacular run-up in prices early in the 2000s, the market is showing signs of cooling off. Sales have slowed and prices in the first three months of 2012 were lower compared to the same period last year.

After a tremendous spike which saw housing prices increase by about 65% between 2005 and 2007, Alberta's housing market has been largely stagnant. Average prices have hovered around the \$355,000 range for the past four years. This extended cooling-off period, evident in both the Calgary and the Edmonton markets, has helped improve housing affordability in the province, but is unlikely to last. Most economic forecasts call for Alberta to once again lead the country in economic growth, which is expected to trigger renewed growth in provincial housing markets.

Like Alberta, Saskatchewan saw a tremendous spike in housing prices between 2005 and 2007. Unlike Alberta, however, that trend has continued, making Saskatchewan Canada's hottest real

estate market. Buoyed by a healthy economy, housing starts have surged, reaching their highest level in nearly 30 years. Meanwhile, average housing prices have nearly doubled over the past five years, influenced by increased construction of more expensive, higher-end homes in Regina and Saskatoon.

Manitoba has had by far the most consistent housing market in the West. Although average house prices are the lowest in the region at \$234,604 in 2011, they have been growing steadily and rapidly without the spikes or troughs seen elsewhere. Since 2006, house prices in Manitoba have increased by 56%, the third-fastest rate of growth in Canada, behind only Saskatchewan and Newfoundland and Labrador.

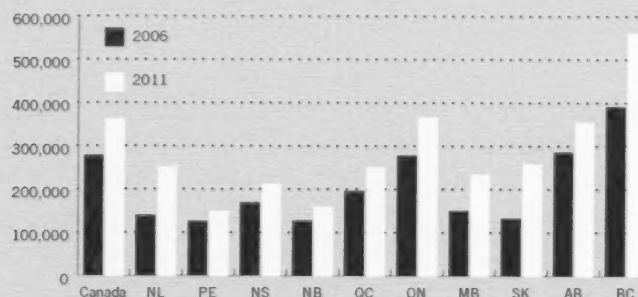
Even though housing prices have risen across the West, home ownership has remained relatively affordable thanks to the lowest mortgage rates since before the 1950s. These low rates have allowed home buyers to stay within their monthly budgets in spite of taking on larger mortgages. Meanwhile, many existing homeowners are capitalizing on their asset wealth by borrowing against the value of their property through home equity lines of credit.

The result has been the swelling consumer debt levels across Canada that is a growing concern to the Bank of Canada. While consumers are treading water for now, at some point interest rates are going to rise and make monthly mortgage and line of credit payments a lot less affordable.

95.6%

Increase in average existing home price in Saskatchewan since 2006.

AVERAGE EXISTING HOME PRICE (\$)



Source: Canada Mortgage and Housing Corporation

DID YOU KNOW?

Three of the four most expensive Canadian cities in which to buy a home are in the West. Vancouver leads the way, with an average home price of \$779,730 in 2011. Victoria is the second priciest at an average of \$498,300. Toronto (\$466,352) and Calgary (\$402,851) round out the top four.

Outside of major cities, the Wood Buffalo region in Alberta, home to Ft. McMurray, has the most expensive housing in the West. The average home in that area cost \$596,436 in 2011.

In March 2012, the average five-year mortgage rate in Canada was 4.21%, the lowest rate in more than 60 years. The highest monthly rate was in September 1981, when the average mortgage rate hit 21.46%.

BEHIND THE NUMBERS

As housing prices rise, single-family homes are declining in popularity across western Canada.

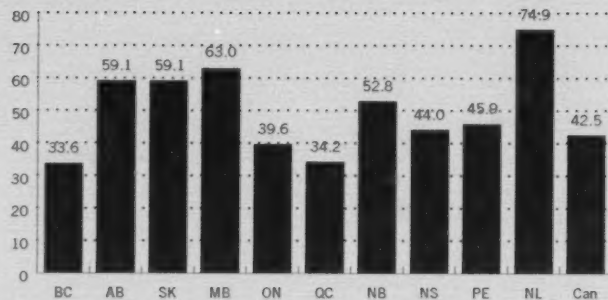
This trend is most evident in BC which is home to Canada's two most expensive urban housing markets. Multiple-unit housing, which includes apartments, row units and semi-detached homes, accounted for two thirds of all housing starts in BC in 2011, up from 54.4% a decade earlier.

On the Prairies, single-detached homes remain the norm for new housing construction, but multiple-unit housing is growing more common there as well. The shift is most apparent in Manitoba where the share of new construction associated with single-family dwellings fell from 83.0% in 2001 to 63.0% last year. Alberta and Saskatchewan have also seen a shift to construction of multiple-unit housing over the past decade. In Alberta, there has been a surge in popularity of semi-detached homes which have risen from 6.7% of total housing starts in 2001 to 10.9% last year.

33.6%
of housing starts in BC in 2011
were single-family homes, the
lowest share in Canada.



SINGLE-DETACHED HOMES AS A PERCENTAGE OF TOTAL HOUSING STARTS — 2011 (%)



Source: Canada West Foundation using data from the Canada Mortgage and Housing Corporation

HOUSING STARTS BY TYPE (AS A % OF THE TOTAL)

	Single-detached		Semi-detached		Apartments, row units & others	
	2001	2011	2001	2011	2001	2011
British Columbia	45.6	33.6	5.3	4.1	49.1	62.3
Alberta	67.8	59.1	6.7	10.9	25.5	30.0
Saskatchewan	68.3	59.1	4.9	3.5	26.8	37.5
Manitoba	83.0	63.0	1.7	4.0	15.3	33.0
Canada	59.0	42.5	7.3	6.5	33.7	51.0

Source: Canada West Foundation using data from the Canada Mortgage and Housing Corporation

Energy Focus: Manitoba

Energy Jobs Fund

The Manitoba government has introduced a \$30-million Energy Jobs Fund designed to help expand the province's manufacturing capacity in renewable energy. The announcement of the new fund comes at a time when Manitoba Hydro is poised to make an estimated \$18 billion in investments in new dams and transmission lines over the next decade. The fund is intended in part to help Manitoba companies, or those which move to the province, bid on the manufacturing contracts associated with those investments, therefore keeping a greater share of the economic spinoff benefits within the province.

The fund will also be used to increase domestic capacity in renewable energy-related manufacturing more generally. By so doing, the Manitoba government hopes to help companies with local operations to more successfully pursue contracts on other local and international renewable energy projects. Financial assistance will be available to encourage the production of equipment used in geothermal, wind, biofuel, solar and other renewable energy projects.



OPINION

BY BARRY WORBETS, MAX BELL FOUNDATION SENIOR FELLOW

Environmental Decision-Making 2.0



The Canada West Foundation recently interviewed 23 retired senior civil servants, resource industry leaders, former Cabinet ministers, internationally-renowned scientists and environmental leaders. The goal of the interviews was to diagnose the state of the environmental decision-making process as it pertains to resource

development and to explore how it can be improved. Considering the diverse backgrounds of the participants, there was surprising agreement, especially on three overarching themes.

First, everyone agreed that environmental decision-making in Canada needs improvement. We are simply not at the top of our game when it comes to environmental stewardship in the resource sector.

Second, improving environmental decision-making is not about fixing the Canadian Environmental Assessment Act, the National Energy Board, the Alberta Energy Resources Conservation Board, BC Environment or some other government department or regulatory agency. Environmental decision-making has to be viewed in a broader policy context. Some changes are needed to the regulatory framework, but it is a small piece of the pie.

Unfortunately the regulatory framework is taking the brunt of the criticism right now. It shouldn't. Other components of the decision-making process such as regional plans, monitoring and compliance, clear goals and objectives, political leadership, ongoing consultation and meaningful collaboration are much more important. These elements have not kept pace with the public interest.

Third, we have moved from a relatively simple world into a much more complex one. The difference was described as a shift from "environmental challenges 1.0 to 2.0." The 2.0 label has been famously applied to the World Wide Web to highlight the shift from passive viewing of websites (Web 1.0) to active online interaction and collaboration (Web 2.0). The web has gone from emails, news groups, desktop computers and basic websites to eBay, PayPal, instant messaging, YouTube, Facebook, Twitter, Wikipedia, 500,000+ apps, mobile Internet devices and cloud programming.

Environmental challenges have gone from a relatively straightforward set of problems and solutions to situations characterized by a wide range of stakeholders, heated rhetoric, competing scientific claims, incomplete information and responses that require broad social change and/or significant economic costs. Compare the challenge of acid rain to climate change: dealing with acid rain meant pulling together a well-defined group of emitters to deal with a clear problem that had an "end of pipe" solution that could be implemented without a great deal of economic disruption. Addressing climate change, on the other hand, involves adjusting virtually every aspect of modern life and, even if it can be done without crippling the economy, the scale of economic adjustment is massive. The same exponential jump in complexity is true of many other current environmental issues from the cumulative effects of multiple land uses on an ecosystem to improving how we develop, transport and steward our energy bounty in Canada.

Hence, we need to upgrade our environmental decision-making mechanisms. This will not be easy given the complexity of environmental challenges 2.0 combined with the resistance to change that typifies governmental processes and the limits set by tight budgets. Greatly improved monitoring and increased capacity to utilize the results of that monitoring are not free. Similarly, cultivating the long-term relationships needed to facilitate consensus among stakeholders requires a lot of political will and a major reworking of how decisions are made within government.

The good news is that we know what needs to be done—both the problems and the solutions are clear. We need to break down the silos that hamper effective intergovernmental cooperation; move beyond the polarized thinking that smothers consensus before it has a chance to develop; fully integrate science into the policy process while gathering the regional data needed to understand the situation on the ground; and have our political leaders clearly define their environmental objectives rather than hide behind mom and apple pie statements. This is a tall order, but the twin goals of economic prosperity and environmental stewardship are more than worth the effort.

A detailed summary of the interviews can be found in the Canada West Foundation report *Keeping Pace: Improving the Environmental Decision-Making Process in Canada*.

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